Trade, Investment and Competitiveness for Economic Growth

The key to economic growth is investment, which should be viewed in its broadest context: improvement and expansion of physical capital (buildings, equipment, etc), enhanced labor productivity through training and skill-building, and introduction of new processes that increase efficiency and the market value of products. Both business environment improvements and firm/industry level actions should be geared to generating the type of investment activities that bring about enterprise growth.

Foreign direct investment (FDI) is often seen as superior to domestic investment for two reasons: 1) foreign investors usually have a wide range of choices for their investment locations, so when a foreign investor enters a country can be viewed as a validation of the competitiveness of that country relative to alternatives, and 2) foreign investors often bring new technology and access to external markets. Nevertheless, foreign investment should not be emphasized to the exclusion of domestic investment when either source might bring about the desired economic growth.

"All economic growth takes place at the level of the productive enterprise – a term encompassing producers in all sectors and of all sizes, from microenterprises and family farms to multinational corporations".[1] Individual enterprises compete in domestic and international markets, and those that are most successful in this competition are the ones that grow. Consistent and sustainable economic growth in a locality or country requires that significant numbers of its firms are successful competitors in their markets.

The competitiveness of individual firms and industries is dependent primarily on two conditions: the behavior and practices of the firms in their markets and the overall business environment in which they operate. Some industries can be highly successful even in a hostile business environment if the strength of the market opportunity is great enough. This is why countries today with extensive oil and gas deposits or other valuable natural resources can produce exceptionally high growth rates despite having business environments that are generally not favorable to enterprise competitiveness.

But most industries do not enjoy the market advantages that natural resource producers enjoy today – and for that matter a decade ago many of these same industries were on the verge of collapse because of chronic over-supply and depressed prices. Manufacturing and service industries must meet the requirements of the competitive markets in regard to price, quality, reliability, and efficiency. One way of meeting the requirements of competitive markets is by adhering to recognized international standards of quality and productivity such as HAACP, ISO, CMMI, Euro Gap and other similar standards that offer the buyers assurances that the product meets the expectations of those buyers. Furthermore, the productivity improvements inherent in many of these standards allow firms to be price-competitive without having to rely solely on low-cost labor. Productive enterprises can be low-cost producers while at the same time paying high wages to employees.

Experience shows that countries with favorable business environments and firms that adhere to recognized standards of quality and productivity are able to produce consistent records of growth over long periods of time, and it is this consistent, long-term growth that brings about high levels of economic well-being for the country's population. LINC is intended to put in place policies and

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[1] Economist Arnold Harberger as quoted in the USAID Economic Growth Strategy: Securing the Future, page 13.

practices both in government and industry that enhance the competitiveness of Ukraine’s firms, thereby setting the stage for sustainable, long-term, stable growth that will benefit disadvantaged individuals and localities, not just a select few.